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SUBJECT: U.S. Court Lifting of Asset Freeze Calms Argentine Waters,
but Political Fallout Continues

CLASSIFIED BY: Thomas P. Kelly, Charge; REASON: 1.4(B), (D)

11. (C) Summary: A New York District Judge's decision on January 15 to temporarily lift the freeze on Argentine Central Bank (BCRA) reserves in the U.S. calmed the markets and appeared to give the GoA some breathing room to resolve the issues of Martin Redrado's fate as BCRA President and the future of the Bicentennial Fund (BF). Still in question is the timing for the launch of the GoA's debt swap offer to the remaining bond holdouts. BCRA Vice President Pesce told CDA in a January 19 meeting that he and the majority of the Board of Directors were now effectively running the BCRA and that the current uncertainty over BCRA leadership and the BF would be resolved in the coming weeks. Pesce's main concern is to ensure the sanctity of BCRA reserves in U.S. financial markets that avoids forcing a transfer to European markets with concomitant disruption of Argentine commodity exports to 300 million global customers. President Fernandez called a press conference on January 19 to announce that she was postponing her trip to China, saying that she could not leave Vice President Cobos, acting as a "leader of the opposition" in charge of the government. At the same time she announced that the issue of Redrado's status could be reviewed by a Congressional committee, a concession to the legislature that may still allow her government to push Redrado out. End Summary.

Redrado Outvoted - and on His Way Out?

12. (SBU) The GOA is appealing a federal judge's decision to reinstate Redrado as BCRA president. Meanwhile, on January 14, BCRA directors, by a 6 to 2 vote, stripped Redrado of most of his authority to act without prior board instructions. An unnamed BCRA official was quoted in the press as saying that "before, everything was done unilaterally; Redrado generally made these decisions without referring to the Board." There are 10 voting members on the BCRA Board, including Redrado (whose vote would break a tie). Six of those members are perceived as Kirchner supporters, including Pesce, whom CFK named as Redrado's interim replacement. CDA has been told by several well-placed sources, including a former Central Bank President and a well-connected private banker, that Redrado probably won't stay in the job much longer; he's made his point, won the initial legal skirmish, and burnished his reputation by standing up to the Kirchners. They say that Redrado may find untenable his position as embattled BCRA head, and that it may well be increasingly difficult for him to withstand the pressure that is applied on him. Nonetheless, Redrado struck a defiant note to the press January 15: "They think they've killed me, but I think they've committed suicide," he said in reference to his ongoing conflict with the executive branch and BCRA Board .

13. (SBU) The banker told CDA that Mario Blejer is still willing to take over the Central Bank, but only after Redrado's status clarifies satisfactorily. According to news reports, Blejer has said that he would only accept the position if he felt assured of the BCRA's continued autonomy. Embassy contacts say Blejer has a solid reputation and his appointment would reassure the financial community; however, some opposition politicians have said they would oppose his appointment in the current environment. There is press speculation today that the Kirchners may sack Boudou because of their pique about his mishandling of the crisis (Redrado reportedly found out about his sacking via Blejer, after Boudou approached him about replacing Redrado) and replace him with Blejer, but Embassy contacts believe it is unlikely that Blejer would take the job, which he reportedly turned down last year. (Boudou got the job instead.)

14. (SBU) In New York, District Court judge Thomas Griesa lifted on January 15 an embargo on BCRA funds he had placed earlier that week, reportedly to give the parties time to talk and come to an agreement. The BCRA had argued that BCRA funds should not be attachable even if the proposed transfer of reserves to the GoA eventually takes place. Redrado, in comments to local press on January 15 observed: "If we had an adverse [final] ruling in the U.S., we would be putting at risk not only funds that are in the U.S. but those in every country in the world, and we are not going to permit that."

Issue Splitting Opposition?

15. (C) The political opposition continues to seek a way to force a discussion of the issue in Congress, but characteristically is beginning to turn on itself. The legislature is in recess until March, and CFK had previously refused to call an extraordinary session; Cobos had stated that he would not take advantage of his position as Acting President in CFK's absence in order to convoke the Congress during CFK's trip to China that was set to begin on January 25, before she cancelled it. Members of a Bicameral Committee in Congress met January 13 to discuss presidential decrees authorizing the transfer of over \$6.5 billion of reserves to the executive to make debt payments and firing BCRA President Redrado, without reaching resolution. Following reportedly heated words, the Committee split 8-8 on how to proceed, with CFK supporters blocking attempts at achieving a quorum in Congress. The efforts have created a rift in the opposition. Deputy (and 2007 presidential candidate) Elisa Carrio has accused Radical Senator Gerardo Morales of carrying on secret negotiations with the Kirchners; Morales denied the charges. Rumors persist that Morales has offered Radical support for Redrado's removal in exchange for an agreement to discuss Redrado's fate and the transfer of funds. Officialists in the Congress apparently had their marching orders: Lower House president Eduardo Fellner (a CFK supporter in the same party), according to Clarin, has said that "If I call a session, the crazy guy (i.e., Nestor Kirchner) will kick me out."

GoA Legal Counter-Offensive

16. (SBU) Osvaldo Guglielmino, Procurador General del Tesoro of Argentina (Attorney General for financial matters), filed charges of "fraudulent process" against federal judge Maria Jose Sarmiento and opposition Congressman Federico Pinedo on January 14. The judge made the initial rulings against Redrado's dismissal and transfer of USD 6.57 billion of BCRA reserves to the BF in response to a suit submitted by Pinedo (PRO party). Cabinet Chief Anibal Fernandez justified to the press the GOA's filing of criminal charges, pointing out that "everything Pinedo asked for, the judge granted." Pinedo spoke to the press about the charges filed against him January 14: "They want to put us all in jail. They'll make it so we have a (congressional) quorum in jail so we can debate the decrees there." Buenos Aires Mayor Mauricio Macri (a

likely 2011 presidential candidate from Pinedo's political party) joined the fray, saying that "If it weren't for Pinedo's lawsuit, they would have frozen \$3 billion in Argentine funds [January 15]. They should thank him." (Historical footnote: Pinedo's grandfather was Finance Minister in 1933-34 and 1940 and authored the BCRA's original charter.)

BCRA VP Pesce: This Too Shall Pass

17. (C) The CDA, accompanied by ECouns, met January 19 with BCRA Vice President Miguel Angel Pesce at Pesce's request. Pesce said that the U.S. court decision to lift the freeze on BCRA reserves in the U.S. was a very positive step that gives the GoA time to calmly and deliberately resolve the BCRA leadership and Bicentennial Fund issues. Pesce predicted that the Congress, Presidency, and Courts would come to an agreement in the coming weeks through consultations. Pesce said that he had the support of the majority of BCRA Directors to effectively run the Central Bank as Interim President and that Redrado will soon go. Pesce added that Redrado, who has political aspirations and was scheduled to finish his BCRA term in September, made a bad decision in challenging CFK on the BF and his departure. Pesce believes the best result would be for him to remain as interim BCRA President until Redrado's term expires in September, at which time CFK can nominate a new BCRA President. (Pesce seemed interested in getting the nod for a full term in September as well.) He told CDA that what must be avoided at all costs are further freezes on BCRA reserves in the U.S. that force the BCRA to shift all of its reserves to Europe, with the potential to seriously disrupt grain markets that would not only impact 40 million Argentines but Argentina's "300 million global customers."

He said that revenues for the sale of Argentina's soy crop, expected to be the country's best ever, will begin to surge in March.

Cristina Cancels Travel, Attacks VP Cobos

18. (U) Late on January 19, CFK gave a rare press conference to discuss the crisis. She announced the cancellation of trip to China because Vice President Cobos "is not fulfilling the role imposed upon him by the Constitution, and has not only become the leader of the opposition, but is opposing and obstructing measures which are the jurisdiction of the President." However, she acknowledged that she would ask Fellner to convene a bicameral committee - where Cobos will apparently have the tiebreaking vote - to discuss Redrado's tenure as BCRA President, though its opinion would be non-binding. Notably, she refused to ask for a similar committee or a special session of Congress to discuss the transfer of BCRA reserves, though she indicated that Congress could discuss it when it returns from recess in March. CFK also reiterated that the planned debt swap offer to remaining holdouts was on track to launch soon. During the question and answer period, CFK became increasingly combative, chiding critics of her government's economic policies, adding critical comments about the owners of leading daily Clarin, and rebuking her handlers for allowing more questions than she anticipated. She responded to a question about whether Argentines can learn by the cross-the-aisles equanimity displayed by Chilean politicians after the recent presidential election there, "So you're saying that Chileans are better than Argentines?"

Comment

19. (C) The lifting of the U.S. Court freeze on BCRA reserves and Economy Minister Boudou's January 18 statement that the debt swap

offer remains on track has calmed the Argentine financial markets for the moment, with JP Morgan predicting that the spread between US Treasuries and Argentine bonds - which had widened during the conflict - will once again narrow as the deal goes forward. The President's concession to let Congress review the issue of Redrado may in fact allow the GOA to get its way while shielding it from the charge of acting autocratically. The Bicentennial Fund issue may now be deferred until Congress reconvenes in March, and may also reflect second thoughts by the GOA about the BF as currently structured and its attendant legal vulnerabilities to U.S. vulture funds holding defaulted Argentine bonds. CFK's postponement of a major visit to China carries costs in terms of more perceived inconsistency in Argentina foreign policy. It may well have been motivated by a fear that Cobos would use his position as acting executive to attempt some maneuver on the Redrado and BF issues, but it may simply be part of the GOA leadership's effort to add pressure on Cobos to resign.

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